

APPENDIX D

OMB SCORING GUIDANCE

1.0 SCORING DOD'S MILITARY HOUSING PRIVATIZATION INITIATIVES

Military Housing Privatization Initiative Authorities

The Military Housing Privatization Initiative (MHPI) in P.L. 104-106 provides DoD with many authorities that may be used to attract private capital investment for revitalizing the stock of military housing. This document defines the guidelines that OMB will use to determine the budgetary impact of DoD's use of these authorities.

Scoring Determines Obligations to be Recorded

Each privatization agreement that DoD enters must be scored for budget purposes. Scoring seeks to determine the cost that should be recognized and recorded as an obligation of DoD at the time a contract is signed. Sufficient appropriations must be available to cover the amount obligated for each contract. The Department, with OMB concurrence, will determine the amount of funds to be obligated to cover future costs that are associated with the use of the tools provided in the MHPI.

Direct Loans and Loan Guarantees

Two important financing tools available to DoD for housing revitalization efforts are direct loans and loan guarantees. Each provides a government subsidy that must be considered and accounted for in making financing decisions. The budget impact of using each of these authorities must be estimated and sufficient funds obligated to cover the estimated cost to the government. The amount of obligations to be recorded for a direct loan or loan guarantee depends on the subsidy rate. The rate represents, in net present value terms, the cost of estimated defaults (net of recoveries) and interest rate subsidy, if any, over the life of the loan or guarantee. For example, if the subsidy rate is 25 percent, obligations of \$10 million would be recorded for a \$40 million loan or guarantee. Before the government can enter an agreement for a loan or guarantee, appropriations sufficient to cover the subsidy cost of each project must be available in the Family Housing Improvement Fund.

Participation Test for Direct Loans and Loan Guarantees

For both on-base and off-base revitalization projects, substantial private sector risk is necessary to conform with the provisions of the Federal Credit Reform Act. Each housing privatization project that uses a direct loan or loan guarantee must meet the following risk or "participation" test: at least 20 percent of all resources

for a project must be provided from private sources without government involvement. If a project does not pass the participation test, the full amount of a loan or guarantee will be recorded as an obligation. This is especially critical for on-base projects, given the inherent governmental nature of any construction and federal use of projects built on federal land. Additional information for determining government and private sector participation is included at the end of these guidelines.

Additional Considerations for Direct Loans and Loan Guarantees

Loans that subordinate the government's position, but have fixed repayment schedules, are scored like first mortgages. The credit subsidy, however, may be higher because the government is not the first creditor to be paid in case of default. Soft second mortgages, loans without a fixed repayment schedule, will be scored as grants, or equal to 100% of the loan. A guarantee of bonds that are exempt from federal taxes will be recorded as an obligation equal to 100 percent of the amount of the guarantee.

Discount Rate for Direct Loan and Loan Guarantee Calculations

DoD should use the interest rate on Treasury securities of similar maturity to the loan. This is the rate required by the Federal Credit Reform Act to estimate the cost of credit programs for the budget. The Government should make its decisions based on its own cost of borrowing, and it should use the same rate for all forms of government subsidies so as to provide consistent measures of cost.

Differential Payments, Income or Occupancy Guarantees and Leases

Differential payments provide additional income stream to a housing provider. Use of this authority will be scored "upfront", with the value of the lease or commitment recorded as an obligation at the time a contract is finalized.

Income/Occupancy Guidance

Income/Occupancy guidance are scored at 100% of the maximum exposure.

Investments

If the Department acquires part ownership of a corporation or limited partnership through the purchase of stocks, bonds, or other types of equity, an obligation will be recorded equal to the cash investment at the time a contract is finalized.

Conveyance of Real Property

The Department may convey property in exchange for housing or an equity investment in a corporation or limited partnership. There will be no scoring impact.

Provision of Goods and Services

The Department shall not provide goods or services that would normally be paid for by a developer, homeowner, or tenant (e.g., utilities, maintenance, waste removal, pest control, snow removal, or roads for exclusive use in housing areas) as a subsidy to housing providers. When appropriate, the Department may provide goods and services, at cost, to housing providers or tenants. If used, the subsidy value will be scored.

Assignment of Service Members to Housing

The assignment of service members to housing is inconsistent with privatization. Moreover, assignment of service members would reduce economic risk to the private sector and reduce incentives for private developers to build, operate and maintain quality housing. Any proposal to privatize DoD family housing should not include assignment of service members to that housing. Assignment of service members to housing, when combined with a loan guarantee for base closure, deployment and downsizing, would effectively eliminate default risk and, therefore, would require the full face value of the loan to be counted as government participation.

OMB Review Process

OMB will work with the DoD Competitive Sourcing and Privatization (CS&P) Office prior to issuance of either a Request For Proposal (RFP) or a Request for Qualification (RFQ) and prior to final contract award, to review and approve/amend the CS&P's scoring determinations for each proposed project. If the parameters of a project remain consistent from the RFP development stage through final contract award, OMB does not anticipate making significant changes after scoring determinations are made during the RFP development stage.

Scoring of the RFQ would involve two steps following the RFQ two-step process. In the first step of an RFQ, the Army makes a commitment to pay a fixed fee, \$350,000, for the developer's plan. The fixed fee for the plan should be scored before the RFQ is issued. If the Army decides to accept the plan, before issuing a "notice to proceed," the plan should be scored. The plan would provide the detailed information similar to that used in scoring RFPs and would be scored using the same scoring guidelines used to score RFPs.

Thus, the major difference between scoring an RFP and an RFQ is that an RFQ involves an additional step.

Items to be reviewed include, but are not limited to:

- percentage of government and private sector participation;
- qualification for credit reform scoring;
- credit reform subsidy estimates; and
- total obligations to be recorded at time of contract signing.

OMB will review CS&P's scoring determinations as quickly as possible, especially during the period immediately preceding final contract award.